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SUBJECT: AMBASSADOR DISCUSSES FREE TRADE IN PIURA

11. (SBU) Summary. During a May 5-6 trip to Piura in northern Peru, the Ambassador met with local dignitaries to discuss free trade and economic development, inaugurated a new AID-sponsored small business center, toured a local textile plant, and visited Peace Corps volunteers. Although the World Bank lists Piura as a relatively wealthy department, the Regional Government asserts that Piura's poverty rate is over 50 percent. The Regional Government recognizes the need to promote economic growth in all sectors, particularly in agriculture, textiles and handicraft work. Even though local agriculture producers benefit from access to U.S. markets, local cotton producers fear that American cotton will flood the Peruvian market under a U.S.-Andean Free Trade Agreement. End Summary.

Rich in Resources, But High Levels of Poverty

12. (U) Piura Department has abundant natural resources, with over 245,000 hectares of arable land and large phosphate deposits. Despite mineral wealth, the northern Department suffers from high levels of poverty. Over 50 percent of the population (approximately 700,000 people) lives in rural areas. Although Piura's per capita GDP in 2000 was \$1,800, close to the national levels of \$2,100, the standard of living in the rural areas was significantly lower, with a per capita GDP of less than \$800. The majority of Piurans make their living by producing agricultural products, including mangos and lemons. Piura produces 64 percent of Peru's total mango crops - more than three-quarters of these are exported to the United States, totaling \$13.5 million in 2004. Textile and artisan production accounts for 25 percent of employment.

Local Government Interested in Investment

13. (SBU) During his trip, the Ambassador met with the Regional President, Mayor of Piura, and the Mayor of Catacaos to discuss social and economic development, including the benefits of an FTA and possible U.S. investment. Regional President Cesar Trelles Lara (APRA) explained that his government is coordinating with several other northern departments, including Tumbes, Lambayeque, Cajamarca, and La Libertad, to establish an economic zone. The priority of the Piura government is to improve the region's competitiveness by expanding agricultural production and improving infrastructure, including building highways, expanding the airports, and developing the ports at Paita and Bayovar. With improved transportation linkages, Trelles stated, investment, exports, and people will move more freely in and out of Piura.

14. (SBU) Mayor Eduardo Caceres (APRA) declared that the local government is committed to reducing the level of poverty. The recent privatization of Bayovar Phosphates, he noted, should help with economic growth. Caceres also hinted that there were several regional projects, including airport and port concessions, which will be open to any future U.S. investment.

Inauguration of New Economic Service Center

15. (SBU) On May 5, the Ambassador participated in an inauguration ceremony for the opening of a USAID/Poverty Reduction and Alleviation Activity (PRA) Economic Service Center in Piura. The center will offer non-financial services, including market analysis, supply information and organization, and technical assistance, to local small businesses in an effort to promote business development. By encouraging economic growth in the region, the Economic Service Center will help prepare small businesses for future business opportunities under a U.S.-Andean FTA.

Ambassador Discusses Cotton Issues

16. (SBU) Piura is one of four places in the world that

produces pima cotton, which is used to make high-quality textiles. The Ambassador, on May 6, toured Textil Piura, one of Peru's largest spinning factories. Textil Piura, like many other textile plants in Peru, uses a substantial amount of U.S. cotton - 20 to 50 percent - to make its finished products. During a lunch before the tour, the Ambassador addressed local business officials about the economic benefits of an FTA. Piura Congressman Humberto Requena questioned how the FTA would affect the local cotton industry, highlighting local fears that U.S. cotton will either flood the market or will hold down local prices once the FTA is signed. Noting that Peru produces only 50 percent of the cotton used by local manufacturers, the Ambassador explained that U.S. cotton does not displace Peruvian cotton. Imports of U.S. cotton, rather, enable Peru to continue producing and exporting high quality textile products; the Ambassador noted that overall Peruvian textile exports to the U.S. have grown since January 2005 despite the elimination of quotas for China. That is because Peru exports high quality goods in a niche where China does not compete well. Congressman Requena agreed, and asked that the Ambassador further clarify the issue to the Peruvian Congress. (Note: The Ambassador emphasized the same point in a meeting at Congress' Economic Commission one week later. End Note.)

Visit to Peace Corps Sites

17. (U) The Peace Corps has a robust presence in Piura, with 25 volunteers living and working throughout the region. Volunteers work in several sectors, including small business development, community health, and youth development. On May 6, the Ambassador toured two of the regional Peace Corps sites; one a small business program approximately 15 minutes from Piura where locals can learn how to produce high quality silver and gold jewelry; the other a rural health post in a small town 30 minutes from Piura.

Comment

18. (SBU) On paper, Piura, a wealthy department along the northern coast of Peru, should benefit from the U.S.-Andean FTA. Even though the regional government supports the FTA, popular support varies by economic sector. Agriculture continues to be a key sticking point. Piuran mango farms currently benefit from improved access to U.S. markets under ATPDEA and are firm supporters of the FTA. In contrast, local cotton farmers mistakenly continue to fear that a trade agreement will allow U.S. cotton to undermine them. This trip highlighted that regional governments and local leaders need to do a better job of explaining the benefits of trade and investment to these uninformed groups. We will continue working with local governments on outreach efforts in the departments.

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